

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Ackerman Analyst: LuAnna Hass Bill Number: SB 957
Related Bills: See Legislative History Telephone: 845-7478 Introduced Date: 02-23-2001
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Dependent Exemption Increase

SUMMARY

This bill would increase the dependent exemption credit from \$235 to \$500 to the equivalent of the federal child tax credit.

PURPOSE OF THE BILL

The author's office has indicated that the bill's purpose is to help families.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective upon enactment and operative for taxable years beginning on or after January 1, 2001.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal law allows a child tax credit of \$500 for each dependent child under the age of 17.

Federal law also provides various personal and dependent exemptions that are subject to income limitations. These exemptions are treated as deductions from adjusted gross income (AGI). The exemption amounts are indexed annually for inflation. The personal exemption amount is \$2,800 for the 2000 tax year. Exemptions begin to phase out at federal AGI levels over specified amounts.

State law provides various exemption credits, including a personal exemption credit and exemption credits for dependents, blind persons, and individuals 65 or older. Unlike federal law, these exemptions are not deductions from AGI but are credits against tax. The amount of exemption credits for the 2000 tax year is \$235 for the dependent credit and \$75 for all other exemption credits.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

Department Director

Date

Gerald H. Goldberg

03/26/01

The exemption credit amounts are indexed annually for inflation. The exemption credits are not refundable and may not be carried over to future years. Exemption credits begin to phase out at federal AGI levels in excess of the amounts listed below:

Filing Status	AGI (2000)
Single/Married Filing Separate	\$124,246
Head of Household	\$186,370
Married Filing Joint/Qualifying widow(er)	\$248,494

Under existing federal and state law, individuals with gross income and adjusted gross income below the applicable filing thresholds are not required to file an income tax return since the standard deduction and personal exemption or exemption credit would result in zero tax liability.

THIS BILL

This bill would increase the dependent exemption credit amount from \$235 to \$500 for the 2001 taxable year and all subsequent years. This increased credit amount would continue to be subject to indexing and the above AGI limitations.

IMPLEMENTATION CONSIDERATIONS

Implementation of this bill could be handled during the department's annual update process.

TECHNICAL CONSIDERATIONS

The existing law requires the dependent exemption credit to be indexed for inflation. Therefore, the increased exemption amount in this bill would be indexed for inflation in 2001. If it is the author's intent to have taxpayers claim a dependency exemption credit of \$500 in 2001, the existing language needs to be amended to postpone indexing of the increased amount until 2002.

LEGISLATIVE HISTORY

AB 595 (Leach, 2001/02), a bill that is identical to this bill, was introduced on February 22, 2001, and is currently in Assembly Rules.

SB 2114 (Leslie, 1999/00) and AB 2400 (Maddox, 1999/00) would have increased the dependent exemption credit from \$227 to \$314. SB 2114 died in the Senate Revenue and Taxation Committee and AB 2400 died in the Assembly Revenue and Taxation Committee.

AB 2797 (Stats. 1998, Chap. 322) increased the dependent exemption credit from \$120 to \$253 in 1998 and from \$222 to \$227 in 1999 and indexed the exemption credit for inflation beginning in 2000.

OTHER STATES' INFORMATION

These states have the following dependent exemption deduction amounts:

- *New York* has a dependent only exemption of \$1,000 per dependent.
- *Illinois* has a dependent exemption of \$1,650 per federal exemption.
- *Massachusetts* has a dependent only exemption of \$1,000 per dependent.
- *Michigan* has a dependent exemption of \$2,900 per federal exemption.
- *Minnesota* has a dependent exemption of \$2,800 per federal exemption.

These states were reviewed because of the similarities between California income tax laws and their tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Based on the data and assumptions below, revenue losses are estimated as follows:

Estimated Revenue Impact			
Taxable/Income Years Beginning On or After January 1, 2001			
Enactment Assumed After June 30, 2001			
Fiscal Years			
(In Millions)			
	2001-2	2002-3	2003-4
Dependent Exemption Credit	-\$1,210	-\$1,160	-\$1,240

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The impact of this bill would depend upon the number of taxpayers eligible to claim additional dependent exemption credits, the average credit claimed, and the average credit applied against tax liabilities.

This revenue estimate is based on the department's latest personal income tax model. The proposal would benefit approximately 2.9 million taxpayers for the 2001 tax year. Approximately 500,000 current taxable returns will become nontaxable as a result of this proposal.

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